

Internal Revenue Service

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Department of the Treasury

Washington, DC 20224

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PLR-130759-10

Date:

January 04, 2011

LEGEND

Foreign Parent =

Taxpayer =

Subsidiary =

Corporation Z =

Business A =

Year 1 =

Year 2 =

Year 3 =

Date 1 =

Date 2 =

Date 3 =

Date 4 =

State A =

Dear :

We respond to your letter dated June 22, 2010, in which you requested rulings under sections 165 and 1502 of the Internal Revenue Code. The information submitted in that letter and in later correspondence is summarized below.

The rulings contained in this letter are based upon facts and representations submitted by Taxpayer and accompanied by a penalty of perjury statement executed by an appropriate party. This office has not verified any of the material submitted in support of the request for rulings. Verification of the information, representations, and other data may be required as part of the audit process.

SUMMARY OF FACTS

Taxpayer is a wholly-owned, indirect subsidiary of Foreign Parent and the common parent of an affiliated group that joins in the filing of a consolidated income tax return ("Taxpayer Group"). At the time of the Conversion (defined below), Subsidiary had one class of stock outstanding, all of which was owned directly by Taxpayer.

Subsidiary became a member of the Taxpayer Group on Date 1 upon the acquisition by Taxpayer of all the outstanding stock of Corporation Z (the "Acquisition"). Prior to Date 1, Corporation Z was the common parent of an affiliated group that joined in the filing of consolidated income tax returns that included Subsidiary, a wholly-owned subsidiary of Corporation Z. The Acquisition was not a "reverse acquisition" within the meaning of § 1.1502-75(d)(3). On Date 2, Corporation Z merged with and into Taxpayer (the "Merger"). As a result of the Merger, Taxpayer became the sole shareholder of Subsidiary.

Subsidiary was formed in Year 1. Since formation, Subsidiary has been directly engaged in Business A. Subsidiary does not own stock in any subsidiary or affiliate. Taxpayer Group utilizes a centralized cash management system to manage excess operating cash ("Cash Management System"). Subsidiary participates in the Cash Management System, and a portion of its intercompany obligations outstanding as of Date 3 originated in the Cash Management System.

On Date 3, Subsidiary had liabilities that exceeded the fair market value of its assets.

TRANSACTION

On Date 4, Taxpayer caused Subsidiary to convert, under the laws of State A, to a limited liability company (the "Conversion"). The Conversion resulted in a change to Subsidiary's federal tax classification from a corporation to a disregarded entity under § 301.7701-3 of the Procedure and Administration Regulations. Due to Subsidiary's insolvency, Taxpayer claimed a worthless stock loss in Year 3 with respect to its Subsidiary stock. Taxpayer requested rulings to verify that it is entitled to a worthless stock loss under § 165(g).

REPRESENTATIONS

Taxpayer submitted the following representations regarding its request:

(a) On Date 4, Subsidiary was insolvent (as described in Rev. Rul. 2003-125, 2003-2 C.B. 1243) for federal income tax purposes;

(b) Subsidiary's stock became worthless within the meaning of § 165(g)(1) during Year 3;

(c) Subsidiary has a single class of stock outstanding and Taxpayer owns directly 100 percent of that single class of stock in Subsidiary;

(d) Taxpayer has no excess loss account in its Subsidiary stock;

(e) Taxpayer will claim a worthless stock loss with respect to the stock of Subsidiary only to the extent permitted by § 1.1502-36;

(f) Subsidiary has not made any distributions to Taxpayer that caused it to become insolvent; and

(g) As of Date 4, more than 90% of the aggregate gross receipts for all taxable years of Subsidiary have been from sources other than those described in § 165(g)(3)(B).

RULINGS

Based upon the information submitted and representations made by Taxpayer, we rule as follows:

(1) The Conversion is the identifiable event for purposes of § 165 (Rev. Rul. 2003-125, 2003-52 I.R.B. 1243, 2003-2 C.B. 1243).

(2) Assuming the requirements for claiming a worthless stock loss under § 165(g) are otherwise satisfied, Taxpayer may claim a worthless stock loss under the consolidated return regulations as a result of the Conversion and the consequent change of Subsidiary's federal tax classification from a corporation to a disregarded entity under § 301.7701-3 (§ 1.1502-19(c)(1)(iii) and § 1.1502-80(c)).

CAVEATS

Except as expressly provided herein, no opinion is expressed or implied concerning the tax treatment of the transactions under other provisions of the Code or the regulations, or the tax treatment of any conditions existing at the time of, or effects resulting from, the transactions that are not specifically covered by the above rulings. In particular, no opinion is expressed concerning (i) whether any of the other requirements of § 165 are met; (ii) whether the stock of Subsidiary became worthless in Year 3 or a prior year; (iii) whether, in computing Subsidiary's gross receipts for purposes of applying the gross receipts tests under § 165(g)(3)(B), Taxpayer appropriately characterized and accounted for items resulting from Subsidiary's participation in the Cash Management System and any other intercompany transactions; or (iii) whether the requirements have been satisfied for characterizing the loss as an ordinary loss pursuant to § 165(g)(3) and § 1.165-5.

PROCEDURAL MATTERS

This ruling is directed only to the taxpayer requesting it. Section 6110(k)(3) of the Code provides that it may not be used or cited as precedent.

In accordance with the Power of Attorney on file with this office, a copy of this letter is being sent to your authorized representative.

A copy of this letter must be attached to any income tax return to which it is relevant. Alternatively, taxpayers filing their returns electronically may satisfy this requirement by attaching a statement to their return that provides the date and control number of the letter ruling.

Sincerely,

Marie C. Milnes- Vasquez
Senior Technician Reviewer, Branch 4
(Corporate)